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C O N F I D E N T I A L SECTION 01 OF 03 ASTANA 001697

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TAGS: [PREL](#) [KDEM](#) [OSCE](#) [ECON](#) [KZ](#)

SUBJECT: KAZAKHSTANI LEADERSHIP PROMISES BOUCHER FOLLOW
THROUGH ON MADRID COMMITMENTS

REF: A. ASTANA 1645 EXDIS (NOTAL)

[1](#)B. ASTANA 1647 (NOTAL)

Classified By: Pol-Econ Chief Steven Fagin, Reasons 1.4 (b) and (d)

Summary

[1](#)1. (C) Prime Minister Masimov and Foreign Minister Tazhin, citing President Nazarbayev's public commitment, told Assistant Secretary Boucher on September 2 that Kazakhstan would follow through on its Madrid commitments on democratic reform. Masimov looked forward to next steps on the Public-Private Economic Partnership Initiative (PPEPI). He explained that Kazakhstan wanted to raise additional taxes from the extractive sector, but would respect the sanctity of existing oil and gas contracts. Masimov promised Kazakhstan would support Tajikistan and Kyrgyzstan in helping them get through the winter. He also said he intended to visit Afghanistan in late October. Tazhin indicated to Boucher that Kazakhstan was moving forward in pursuing the International Atomic Energy Agency Board of Governors seat for which Syria is also a candidate. He asked for high-level U.S. Government attendance at the October 17 ministerial meeting of President Nazarbayev's Common World Forum. End Summary.

Follow Through Promised on Madrid Commitments

[1](#)2. (C) During separate September 2 meetings in Astana, President Nursultan Nazarbayev, Prime Minister Karim Masimov, and Foreign Minister Marat Tazhin discussed with visiting Assistant Secretary for South and Central Asian Affairs Richard Boucher the Georgia crisis, Kazakhstan's Madrid commitments, economic issues, Central Asia regional relations, Afghanistan, Kazakhstan's candidacy for the International Atomic Energy Agency Board of Governors, the Common World Forum, and Kazakhstan's "Path to Europe" program. Discussion of Georgia -- which was the principal topic of the Nazarbayev meeting -- was reported in Ref A.

[1](#)3. (C) Masimov and Tazhin both reaffirmed to Boucher Kazakhstan's intention to fulfill its Madrid commitments on democratic reform. Masimov explained that in Nazarbayev's speech opening the latest session of Parliament earlier in the day, he had pledged that the necessary legislation amending Kazakhstan's election, political party, and media laws would soon be introduced to Parliament. Masimov said that the government's timeline was to have everything passed by year's end. He noted that Nazarbayev had specifically said in the speech that the election law should be changed to ensure that at least two parties would receive seats in Parliament, regardless of whether a second one crossed the seven percent barrier. Nazarbayev also said in the address that there were "no legal or political reasons" for early

parliamentary elections; rather, the next elections would occur on time, in 2012. (Note: See Ref B for more details on Nazarbayev's September 2 address to Parliament. End Note.)

Respect for Contract Sanctity

¶4. (C) Masimov told Boucher that the Kazakhstani economy was performing relatively well. Gross Domestic Product grew at a 5 percent annual rate for the first half of the year. Inflation was 5.7 percent -- a little higher than expected, but manageable. Masimov said that Kazakhstan hoped to move forward on next steps in the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). He explained that the government was continuing to take steps to support the construction sector, which had been hit hard by the global financial crisis. The government intended to create a fund, with 5 or 6 billion dollars in capital, to buy up distressed assets from banks at a discount. The aim would be to privatize the fund after several years, and reap a profit -- as South Korea had done a decade earlier.

¶5. (C) Masimov reminded Boucher that Kazakhstan was in the process of adopting a new tax code, which would lower the corporate income tax rate from its current 30 percent level to just 15 percent in 2011 -- one of the lowest rates in the world. A main aim of this tax reform effort was to decrease the tax burden on the non-extractive sector. Higher taxes on the extractive sector would make up for the revenue shortfall. Kazakhstan's target was to capture 60 percent of the profits from oil and gas, which is what Statoil pays in

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Norway, Masimov explained. Kazakhstan respected sanctity of contract and would thus not force reconsideration of the terms of existing extractive sector contracts, but in the future, new contracts would have taxation terms consistent with the new tax code. Masimov said he had advised the international companies to have their current contracts with special tax terms ratified by Parliament to ensure they would be exempt from the new code.

¶6. (C) The government was also introducing legislation to implement a new budget code, Masimov continued, which envisioned performance-based budgeting, as well as three-year, in place of two-year, government budgets. In the 2009-11 budget, the government would significantly increase salaries, pensions, and student stipends, he explained. In putting together the budget, the government was presuming a \$60 per barrel price for crude. Masimov noted that for some time, he personally had been predicting a significant fall in crude prices once the Beijing Olympics were over.

Little Regional Progress on Water and Energy

¶7. (C) Turning to regional cooperation, Masimov told Boucher that Kazakhstan was prepared to assist Tajikistan and Kyrgyzstan in helping them get through the upcoming winter. Kazakhstan was already supporting Kyrgyzstan by buying Kyrgyz summer electricity at rates 35 percent above those of the domestic Kazakhstani market. Masimov said that the Kazakhstanis, Kyrgyz, Uzbeks, and Tajiks would meet in Almaty in late September to discuss water and energy, but admitted that little progress had been made on these issues over the past 15 years. Masimov argued that there was a fundamental "conflict of interest" among the countries: for Kazakhstan and Uzbekistan, water was more important than energy, but for Kyrgyzstan and Tajikistan, the situation was reversed. To protect itself from floods and droughts owing to Kyrgyzstan's upstream water usage for hydropower, Kazakhstan was proceeding with work on a "counter-regulating" water reservoir. The Kazakhstanis are also building a pipeline to bring gas from the country's west to its south, so that the

south would not have to rely on Uzbek gas. (Note: Nazarbayev told Boucher in their meeting largely devoted to Georgia that his own concept of a Central Asian union was "understood everywhere except in Uzbekistan." Nazarbayev said he had explained to Uzbek President Karimov that "with our unity, everyone would have a different approach toward Central Asia." Nazarbayev maintained he had even told Karimov that Karimov could lead the union, but Karimov would not budge in his opposition to the idea. "Karimov is an old friend, but he always says we have to separate friendship from business, that you should go your way in running your country, and he will go his way in running his," Nazarbayev related. End Note.)

Masimov Heading to Afghanistan

18. (C) Boucher outlined for Masimov our priorities for future assistance to Afghanistan. Masimov reminded Boucher about Kazakhstan's aid program for Afghanistan and said that he would visit Kabul in late October, most likely either October 22 or 23. He explained that he may want a briefing from the U.S. before the trip.

Moving Forward on Board of Governors Seat

19. (C) Foreign Minister Tazhin indicated to Boucher that Kazakhstan was moving forward in pursuing the International Atomic Energy Agency Board of Governors seat which Syria is also competing for. He said that the Kazakhstanis had sent an official request to the Indians to join the Middle East/South Asia (MESA) group, and had begun consultations with partner countries, including Russia. Tazhin contended that a Board of Governors seat made sense for Kazakhstan "institutionally, historically, and psychologically." He explained that he was very appreciative of Secretary Rice's support on the issue. Boucher noted that he had just told the Indians that Kazakhstan should be accepted into the MESA group, and that given multiple candidacies for the seat, the Indians should report to the Agency General Conference that there is no consensus Middle East/South Asia candidate.

Support for Common World Forum

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110. (C) Tazhin asked Boucher for high-level U.S. representation at the October 17 ministerial meeting of the Common World Forum, a Nazarbayev initiative aimed at encouraging dialogue between the West and the Muslim world. Tazhin reminded Boucher that Nazarbayev had discussed launching such an initiative with President Bush in 2006. According to Tazhin, approximately 30 countries have already confirmed participation by foreign ministers for October. Boucher said he would check as to who might be able to attend from Washington. Regarding the U.S. request to expand attendance at the Forum to additional countries, Tazhin indicated that this might raise problems. For example, if the Georgians were now invited, Russian Foreign Minister Lavrov might back out.

"Path to Europe," Rather Than an Asian Model

111. (C) Boucher told Tazhin that he had pressed the Europeans to help Kazakhstan with Nazarbayev's "Path to Europe" program. Tazhin explained that the Kazakhstanis had made a deliberate decision to reject Asian models of development -- Singapore, China, South Korea, etc. -- and to instead adopt a European one. The "Path to Europe" program, he said,

envisioned greater cooperation with Europe in areas such as energy and technology transfer, as well as in restructuring government/business, government/civil society, and center/regional relationships in Kazakhstan toward a European model. The Europeans appeared to be interested in working more closely with Kazakhstan, though the fact that Russia stood geographically between the two sides was a complicating factor, Tazhin maintained.

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